

Message Text

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C O N F I D E N T I A L ROME 2532

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALAIN BALANCE OF PAYMENTS SITUATION, JOINT EC
LOAN, OECD SOLIDARITY FUND

1. SUMMARY. DURING LUNCH WITH AMBASSADOR FEBRUARY 19
TREASURY MINISTER COLOMBO SEEMED FAIRLY OPTIMISTIC ABOUT
ITALIAN ECONOMIC SITUATION AS REGARDS BALANCE OF PAYMENTS
IMPROVEMENT AND DECELERATION IN PRICE RISES. ON OTHER HAND
PROSPECTS OF "ZERO" GROWTH WERE WORRISOME. DSPITE RECENT
PRESS REPORTS GOI WAS STILL INTERESTED IN EXPLORING POS-
SIBILITY OF EC JOINT BORROWIN FROM OPEC. ITALIAN OFFICIALS
ALSO HAVE INDICATED THEIR SATISFACTION WITH PROGRESS ON CREATION
OF OECD SOLIDARITY FUND BUT FEAR THAT INSISTENCE ON
"LAST RESORT" NATURE OF FUND COULD MEAN THAT IT COULD NOT BE
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DRAWN UPON WITHOUT DESTROYING BORROWER'S REMAINING CREDIT

WORTHINESS. END SUMMARY.

2. ALSON ON FEBRUARY 19 TREASATT DISCUSSED ABOVE ISSUES WITH MINISTRY OF TREASURY DIRECTOR GENERAL PALUMBO. PALUMBO HAD JUST ACCOMPANIED COLOMBO TO EC MINISTERS OF FINANCE MEETING ON FEBRUARY 17. HE SAID THAT EC MINISTERS HAD REVIEWED ECONOMIC SITUATION IN EC COUNTRIES, PARTICULARLY TRADE-OFF BETWEEN FASTER THAN EXPECTED IMPROVEMENT IN BALANCE OF PAYMENTS OF DEFICIT COUNTRIES AND SHARPER THAN PREDICTED DECLINE IN REAL GROWTH, WITH CORRESPONDING RISE IN UNEMPLOYMENT. TREASURY MINISTER COLOMBO HAD EXPLAINED THAT GOI NOW FORECASTS TRADE DEFICIT IN 1975 (IMPORTS FOB) AT ONLY 2500 BILLION LIRE (\$3906 MILLION AT \$1 EQUALS 640 LIRE). TRADE DEFICIT WOULD CONSIST OF 4500 BILLION OIL DEFICIT (\$7031 MILLION), MORE THAN 40 PERCENT OF WHICH WOULD BE OFFSET BY SURPLUS ON NON-OIL TRADE OF 2000 BILLION (\$3125 MILLION). (LATEST EMBASSY ESTIMATES OF CORRESPONDING TRADE DEFICIT FIGURES FOR 1974 IN MILLIONS OF DOLLARS ARE ABOUT 7590 TOTAL, OF WHICH 7110 OIL AND 480 NON-OIL.)

3. PALUMBO SAID THAT RATE OF IMPROVEMENT IN ITALIAN BALANCE OF PAYMENTS WAS, PERHAPS, TOO FAST. IT IMPLIED THAT REAL GROWTH WOULD BE EVEN WORSE THAN ORIGINAL 1975 ESTIMATES OF "ZERO" GROWTH AND THAT EMPLOYMENT AND UNDEREMPLOYMENT WOULD RISE AT CORRESPONDINGLY FASTER THAN ANTICIPATED RATE. (COLOMBO EXPRESSED HOPE TO AMBASSADOR THAT FASTER US RECOVERY MIGHT HELP TO AVOID ZERO GROWTH.) PALUMBO MENTIONED RECENTLY PUBLISHED ESTIMATES BY SEMI-GOVERNMENT TECHNICAL SCIENTIFIC COMMITTEE (AN ADVISORY BODY TO ITALIAN PLANNING AUTHORITIES) WHICH FORECAST DECLINE IN ITALIAN REAL GNP IN 1975 OF 2.5 PERCENT, WITH DROP IN INVESTMENT OF 10 PERCENT AND IN PRIVATE CONSUMPTION OF 2.5 PERCENT. HE DID NOT INDICATE THAT HE ACCEPTED SUCH A PESSIMISTIC FORECAST, BUT SEEMED TROUBLED BY SUCH A PROSPECT (WHICH GOES BEYOND PRESENT OECD ESTIMATE OF MINUS 1.75 PERCENT GNP IN 1975).

4. MINISTER COLOMBO TOLD AMBASSADOR THAT ITALIAN PRESS HAD FALSELY CLAIMED THAT ITALY HAD NOW LOST INTEREST IN JOINT EC BORROWING. IN FACT, WHILE URGENCY OF

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FINDING NEW SOURCES OF FINANCING FOR EXPECTED 1975 BALANCE OF PAYMENTS DEFICIT HAS BEEN REDUCED, ITALY WOULD STILL LIKE TO HAVE EC COMMISSION EXPLORE JOINT BORROWING POSSIBILITY. HOWEVER, BEFORE ITALY WOULD MAKE FORMAL REQUEST FOR LOAN, IT WOULD WANT TO BE SURE THAT FINANCING FROM OPEC SOURCE WAS REALLY AVAILABLE ON ACCEPTABLE TERMS. PALUMBO SAID THAT, POLITICALLY, ITALY SIMPLY COULD NOT AFFORD TO MAKE A PUBLIC REQUEST AND

THEN RECEIVE A NEGATIVE ANSWER BECAUSE OPEC FINANCING WAS NOT AVAILABLE, OR BE FORCED TO REJECT BORROWING PROPOSAL BECAUSE OF UNACCEPTABLE FINANCIAL TERMS OR POLITICAL CONDITIONS. INSTEAD, COMMISSION WOULD HAVE TO TAKE PRELIMINARY SOUNDINGS TO DETERMINE CONCLUSIVELY WHETHER APPROPRIATE FINANCING WERE AVAILABLE AND THEN, IF NECESSARY, ITALY MIGHT MAKE FORMAL REQUEST.

5. PALUMBO THOUGHT THAT GOOD PROGRESS WAS BEING MADE IN REACHING AGREEMENT ON CREATION OF OECD SOLIDARITY FUND. HOWEVER, HE RUEFULLY COMMENTED THAT INCREASING STRESS ON "LAST RESORT" NATURE OF ANY BORROWING FROM FACILITY, AS GERMANY AND JAPAN WERE INSISTING UPON, COULD GREATLY UNDERCUT USEFULNESS OF FUND. HE ALSO THOUGHT THAT HE DETECTED HARDER LINE FROM FRANCE, WHOSE BALANCE OF PAYMENTS SITUATION WAS IMPROVING. NO COUNTRY WOULD BE WILLING TO RESORT TO FUND, IF IMPLICATION WAS THAT ITS FINANCIAL POSITION WAS ABSOLUTELY DESPERATE. THIS WOULD ELIMINATE ANY REMAINING POSSIBILITY OF BORROWING FROM OTHER SOURCES AND DESTROY COUNTRY'S CREDITWORTHINESS. PALUMBO THOUGHT THAT THIS HAD NOT BEEN INTENT OF ORIGINAL US PROPOSAL. PALUMBO SAID THAT, AT RECENT EC MEETING, BRITISH OFFICIAL HAD DESCRIBED "SAFETY NET" AS BEING FINE, EXCEPT THAT IT WOULD BE STRETCHED OUT ON THE PAVEMENT. VOLPE

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